



## **MORTGAGE CHOICE AGM 2016 CHAIRMAN'S ADDRESS**

I am purposefully going to avoid giving you numbers this morning.

The Board and I have total confidence in our CEO and his team and it is their place to share all that good news and strong results with you.

I do have, however, some important information that I want to discuss:

The first thing is to let you know that this will be my last AGM as a Board Member and Chairman of the company.

We are in the process of appointing a new chairperson and they will be in place early in 2017.

The second thing is, when you view Mortgage Choice and its financial performance, it is vital that you keep in mind that Mortgage Choice is not "just another public company", we are a Franchise Organisation!

- We have relatively few employees.
- We have more than 400 PARTNERS who ARE the company in their communities all over Australia.
- I spent more than 30 years of my life establishing the strongest Franchise Organisation in Australia (McDonalds), (and making it the best operation in the McDonalds world). So I have some confidence that I know how Franchises work.

Now, I'm not going into detail on how/why franchises succeed or fail, but I want to point out and emphasise today, that at the ABSOLUTE CORE (of a successful franchise) is the TOTAL PROFIT GENERATED and the appropriate SHARE of PROFIT between Franchisor and Franchisee. If that balance is out a Franchise system is doomed to fail!

Finally, I want to talk about our Remuneration report and the re-election of Directors because, I'm sure you will notice the high percentage of "No" votes that those resolutions attracted.

Your company has just a handful of institutional (large) shareholders. Some of them delegate the task of assessing company results to outsiders – called "Proxy Advisors".

These Proxy Advisory do a pretty thorough job of analysis, but unfortunately they take a "cookie cutter" type of approach and have quite fixed views on most things.

The reason I want to speak about this approach today is not to defend the Company, or the Board, but because I believe this approach, by those remote and close-minded advisors, is actually hurting Australia.

They recommend to vote against our Remuneration report, for two major reasons – we pay dividends to our Executive Team on the shares they have in their incentive program which have not yet ‘vested’, and, the CEO has received 100% of their bonus for the past few years.

Let me, first of all, put some perspective into this picture. Mortgage Choice paid dividends to shareholders in the last twelve months of more than \$20 million! The amount paid to the Executive Team in the incentive plan, in total amongst 16 people, is only approximately \$150,000.

An ‘easy fix’ for this ‘problem’, of course, is to pay them the same amount as part of their base package – we chose not to do that because getting those dividends ensures that the Executive team have a vested personal interest in the amount of dividend. If we pay less to the shareholders the Executives also get less – isn’t that exactly how you would want it?

Regarding the CEO package, this is really only a difference in philosophy. As a Chairman I know it is important to establish goals for the organisation which are a “stretch”, but I think people are most inspired if they are “succeeding”; again the “easy fix” would be to make the goals just unachievable (which would satisfy the Proxy Advisors) but just failing to get there each year is NOT where I want my CEO.

More importantly, some Proxy Advisors recommend to vote against our two Directors who are up for election today (and here’s where I believe they are doing their worst damage) – they say “they have been there for too long, they are no longer ‘independent’” – but hang on, independent from what?

Oh, “from the CEO and Management” – but wait a minute, we’ve appointed a new CEO within the last 18 months and the changed of the structure and the membership of the Management Team,

So they are recommending that we throw off our board the most senior of our founding partners (who knows the business from the grassroots up, and is close friends with many of our older franchisees) and Dr. Ralston who is one of the most respected women in the finance industry in Australia! Is anybody doing any thinking here!

And here’s how they are hurting Australia – It’s those sort of thoughtless recommendations which are resulting in boards who are so INDEPENDENT they don’t know what business they are in! How did Woolworths get to the point where they have no retailers on the board? Or BHP finding themselves without a miner? How, and why have we allowed these remote advisors to have so much influence in the Australian business community?

For my last word today, I want to reassure all shareholders that the company is well set-up for the coming year or two, and the future generally. Our team have not achieved the results that you will now hear about, by shaving cost and disinvesting, they have done the reverse, they have invested in people and systems that will carry Mortgage Choice successfully into the next decade.



18 October 2016

# Mortgage Choice Annual General Meeting

Presented by John Flavell, CEO

Today:

1. Introduction
2. Financial performance
3. Achievement of FY16 goals
4. Early Progress for FY17

# Introduction

## Highlights summary



- Cash NPAT up by 10.7%



- Financial Planning profitable on a monthly basis



- Record lending results \$12.2bn



- Dividend up 1c to 16.5c

# FY16 performance highlights

		<b>FY16</b>	<b>FY15</b>	<b>FY16 vs FY15</b>	
NPBT	- cash	29.5 m	25.7 m	14.5%	▲
	- IFRS	28.3 m	26.5 m	6.9%	▲
NPAT	- cash	20.5 m	18.6 m	10.7%	▲
	- IFRS	19.5 m	18.9 m	3.6%	▲
Lending	- Loan book <sup>^</sup>	51.7 b	49.5 b	4.4%	▲
	- Settlements	12.2 b	11.5 b	6.3%	▲
Wealth	- FUA	332.1 m	278.0 m	19.4%	▲
	- PIF	19.2 m	15.0 m	27.7%	▲
Basic EPS	- cash	16.5 c	15.0 c	10.0%	▲
	- IFRS	15.7 c	15.2 c	3.3%	▲
DPS	- ordinary	16.5 c	15.5 c	6.5%	▲

<sup>^</sup>includes residential and commercial

# Financial performance

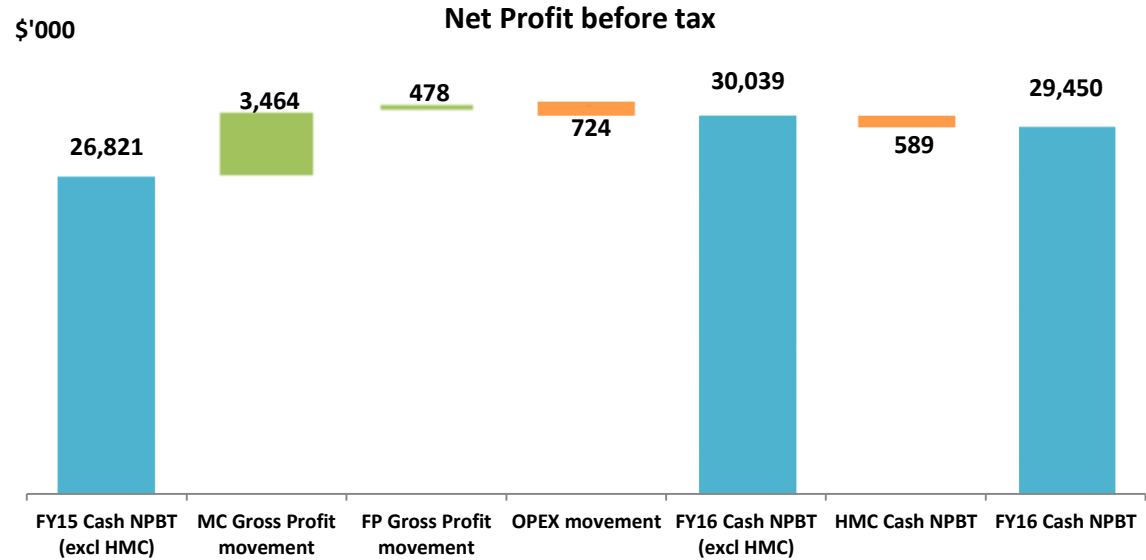


# Profit and loss statement

<sup>^</sup> Cash is based on accruals accounting; but excludes share based remuneration, and the net present value of future trailing commissions receivable and payable. This presentation is adapted from our audited accounts to show the effect of the closure of HMC.

\$m	FY16			FY15		
	Cash <sup>^</sup>	Cash <sup>^</sup>	% change	IFRS	IFRS	% change
Origination commission received	72.31	70.00	3.3%	72.31	70.00	3.3%
Trailing commission received	95.08	89.33	6.4%	104.71	92.49	13.2%
Diversified products revenue	6.71	6.39	5.1%	6.71	6.39	5.1%
Financial Planning revenue	8.40	6.00	40.0%	8.40	6.00	40.0%
Other Income	4.58	4.08	12.3%	4.58	4.08	12.3%
<b>Gross Revenue</b>	<b>187.08</b>	<b>175.79</b>	<b>6.4%</b>	<b>196.70</b>	<b>178.95</b>	<b>9.9%</b>
Origination commission paid	52.94	51.49	2.8%	52.94	51.49	2.8%
Trailing commission paid	57.85	54.14	6.9%	66.89	56.22	19.0%
Diversified products costs	5.13	4.82	6.4%	5.13	4.82	6.4%
Financial Planning costs	6.71	4.84	38.6%	6.71	4.84	38.6%
<b>Commission Cost</b>	<b>122.63</b>	<b>115.29</b>	<b>6.4%</b>	<b>131.67</b>	<b>117.37</b>	<b>12.2%</b>
<b>Gross profit</b>	<b>64.45</b>	<b>60.51</b>	<b>6.5%</b>	<b>65.04</b>	<b>61.58</b>	<b>5.6%</b>
Operating expenses	34.41	33.68	2.1%	34.41	33.68	2.1%
Share based remuneration	0.00	0.00	-	0.80	0.84	(4.9%)
<b>OPEX</b>	<b>34.41</b>	<b>33.68</b>	<b>2.1%</b>	<b>35.21</b>	<b>34.53</b>	<b>2.0%</b>
Net profit before tax (excl HMC)	30.04	26.82	12.0%	29.83	27.06	10.2%
HMC profit before tax	(0.59)	(1.10)	(46.6%)	(1.48)	(0.55)	170.3%
Net profit before tax	29.45	25.72	14.5%	28.35	26.51	6.9%
<b>Net profit after tax</b>	<b>20.55</b>	<b>18.57</b>	<b>10.7%</b>	<b>19.54</b>	<b>18.86</b>	<b>3.6%</b>
EPS (cps)	16.5	15.0	10.0%	15.7	15.2	3.3%
DPS (cps)	16.5	15.5	6.5%	16.5	15.5	6.5%

## NPBT records strong growth and controlled expense



- Significant revenue growth in both the core broking business and financial planning arm drove increase in net profit before tax
- The closure of HMC helped stem the cash losses recorded in FY15
- Business will continue to focus on revenue growth and expense management in FY17 and beyond

# Strong gross profit growth in mortgage broking and financial planning

## Divisional results

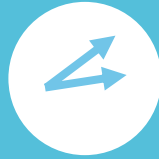
\$000	FY16			FY15		
	MC	FP	HMC	MC	FP	HMC
Settlements	12.2b			11.5b		
Gross profit (IFRS)	63,295	1,745	437	60,315	1,268	3,800
Gross profit (Cash)	62,700	1,745	1,355	59,237	1,268	3,212
OPEX	32,219	2,189	1,944	31,506	2,178	4,316
EBITDA (Cash)	31,491	(377)	(541)	28,335	(843)	(957)
NPAT (IFRS)	20,913	(336)	(1,039)	19,901	(661)	(384)
NPAT (Cash)	21,264	(300)	(419)	19,955	(626)	(763)
YOY Growth (%)	7%	52%	45%			

- Core broking business cash NPAT up 7%
- Financial Planning business cash NPAT up 52%, with this business delivering its first monthly profit result in February 2016
- HMC division was shut down, but continues to receive trailing commission from products introduced prior to this closure; all costs of closure included in FY16

\* FY14 Divisional results excludes discontinued business LoanKit

# Achievement of FY16 goals

## FY16 goals



- NPAT growth (positive jaws)



- Market share growth



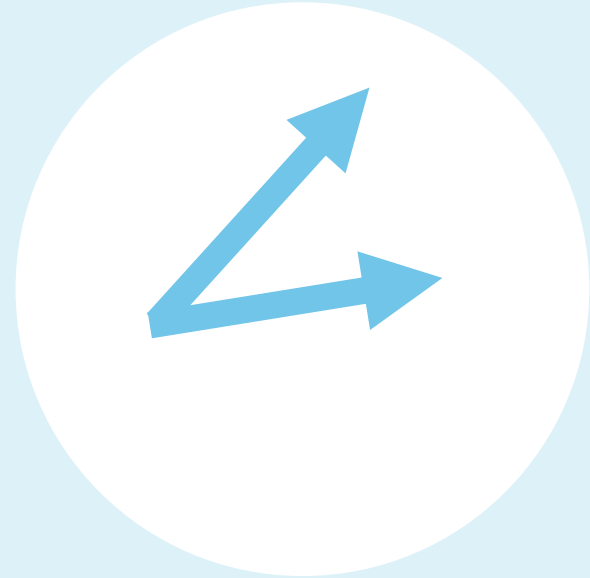
- Increase franchisee revenue



- MCFP integration

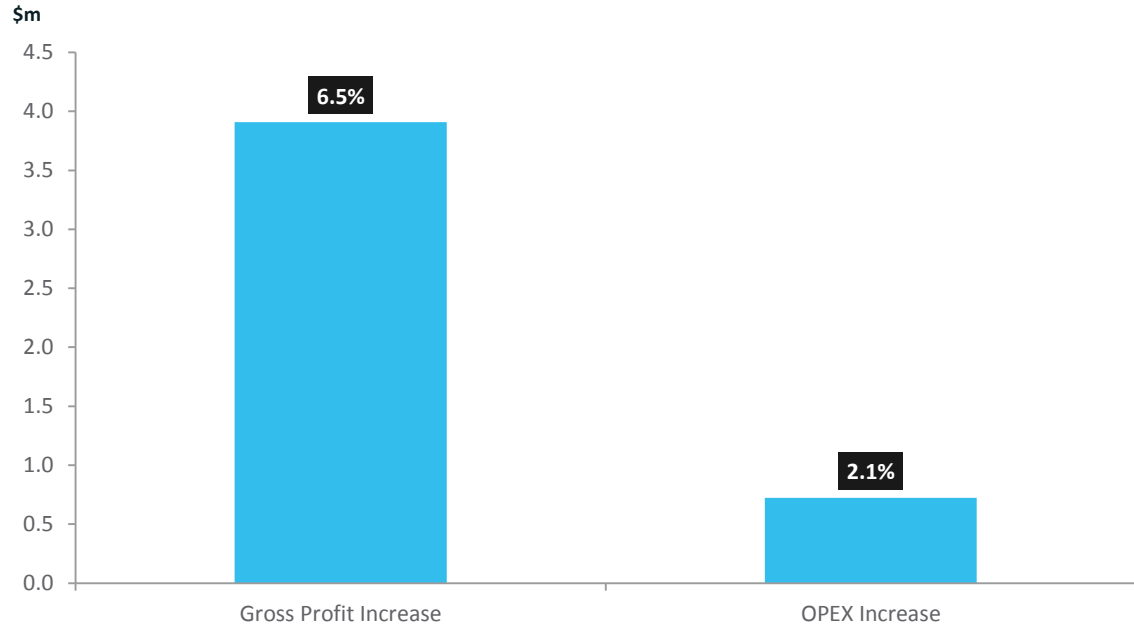
## NPAT Growth (positive jaws)

Strong positive  
revenue growth  
and  
improvement in  
expense  
management



Revenue and gross profit is increasing faster than growth in expenses

*\*On cash basis and excluding HMC*



- Increased investment in the business has accelerated gross profit, outpacing growth in expenses
- Expense management and ROI will remain a key focus for the Business in FY17 and beyond

## Market Share

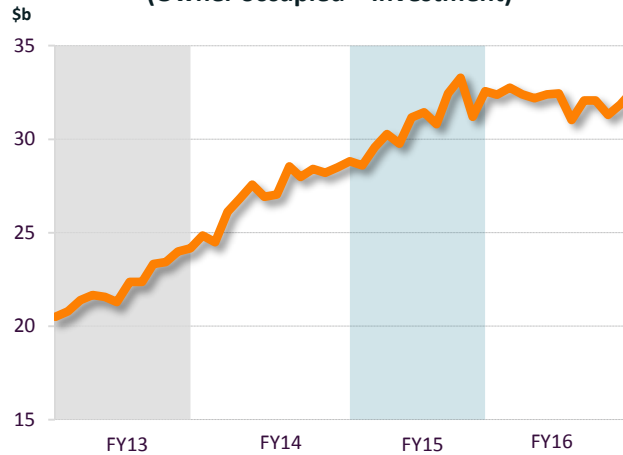
Reversed the trend in market share, continued opportunity exists



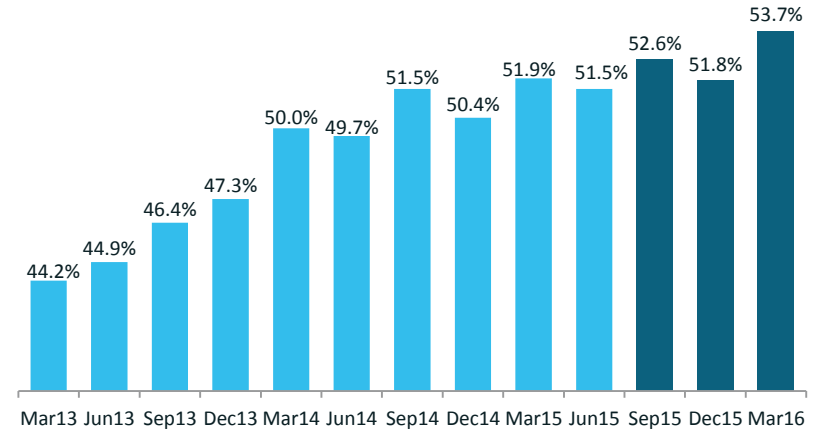


# Home loan market remains robust

**Housing finance trend  
(Owner occupied + Investment)**



**Broker Usage**

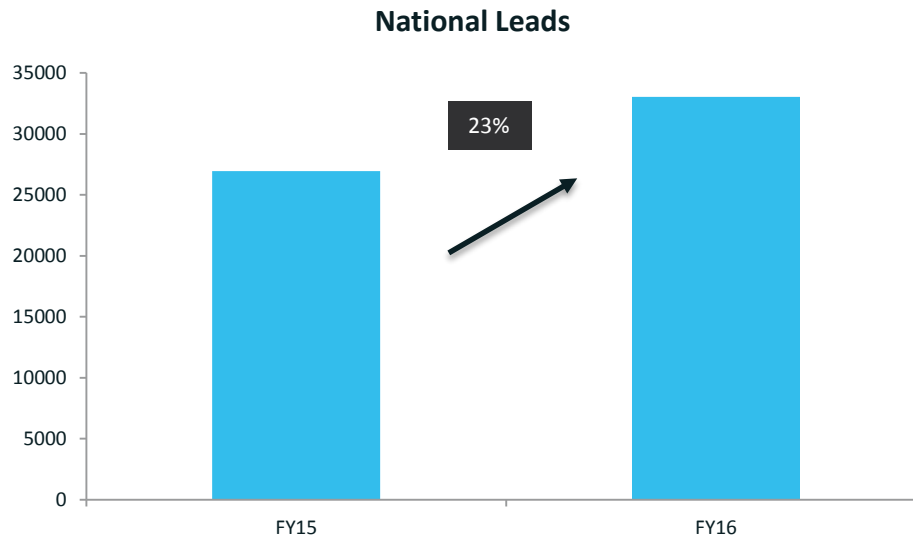


Housing finance source: ABS 5609  
Table 11 – Housing Finance,  
Australia, Jun16 (Seasonally  
adjusted series)

Broker usage source: MFAA's quarterly  
survey of leading mortgage brokers and  
aggregators – Mar16 report

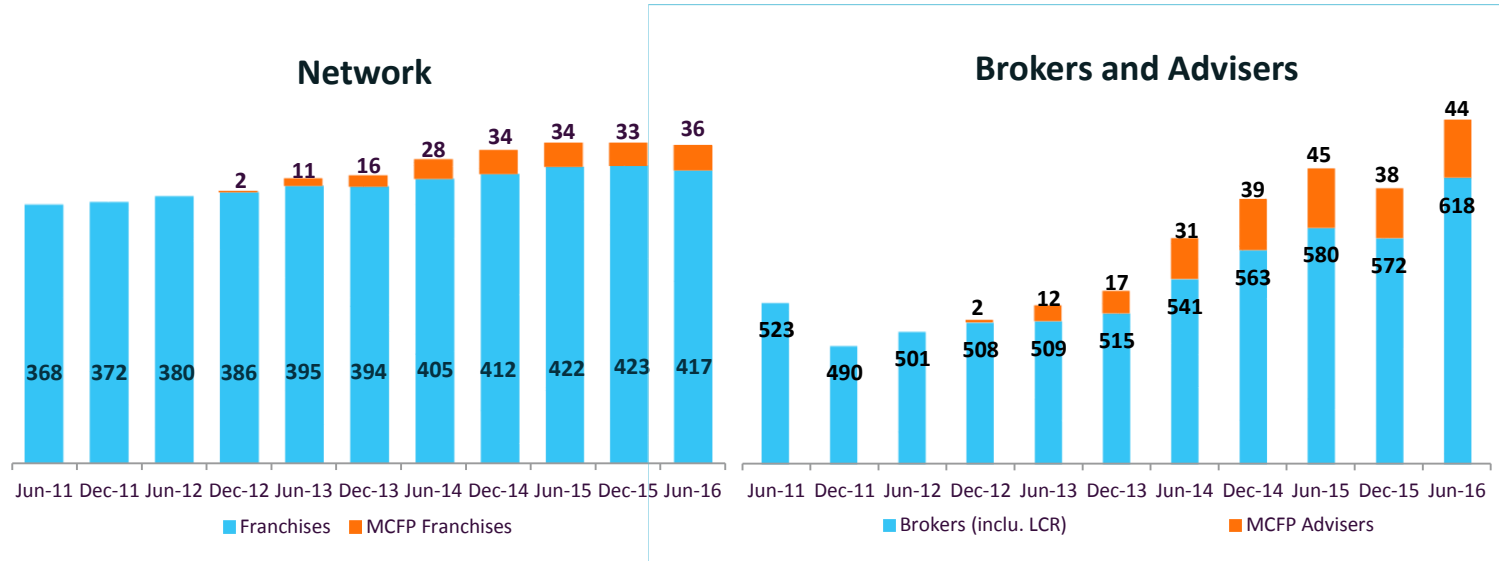
- Housing finance commitments remain high, providing Mortgage Choice with plenty of business opportunities
- Mortgage Choice remains well placed to capture market share even if the heat comes out of the housing market
- Broker usage continues to grow above 50%

## National home loan leads



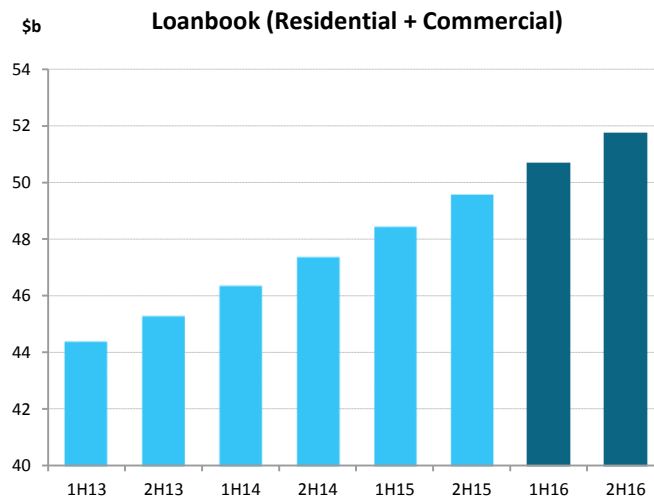
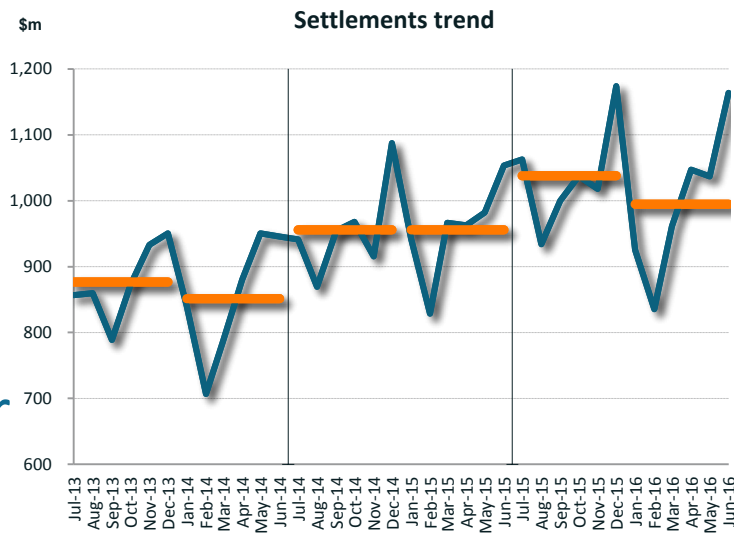
- National home loan leads up 23% as a result of a focus on website conversion and a new media strategy. TV was removed from the media mix, allowing for a concentrated spend on more efficient channels – radio, paid Google search and local collaborative marketing
- The new strategy helped reduce the Company’s cost per lead by 17.5% year on year

# Business continues to grow number of mortgage brokers



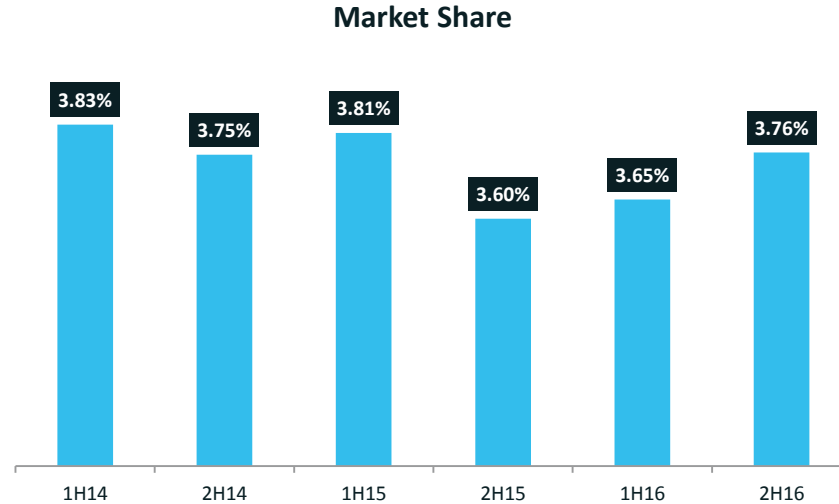
- Strong growth in mortgage brokers due to new recruitment initiatives
- Continued network growth remains a focus for the Business in FY17, with the Company building a team to drive recruitment and accelerate productivity, including a new Head of Growth and Development function
- The Company has bullish plans for continued growth in loan writer and franchisee numbers in FY17 and is well positioned to deliver against the same

Record  
home loan  
settlements  
- up 6.3%  
year on year



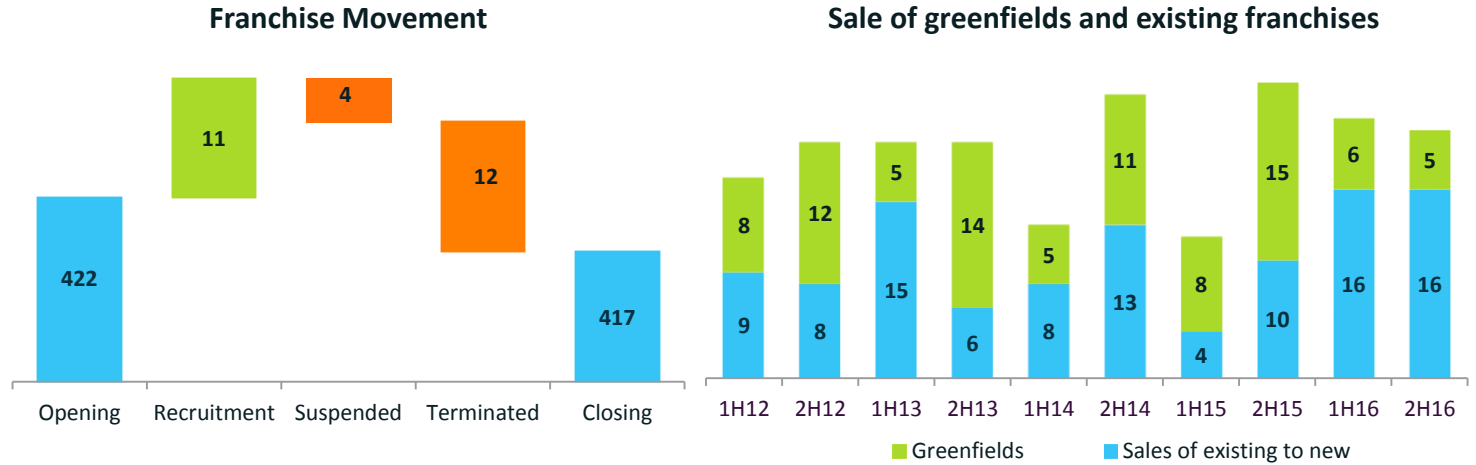
- Mortgage Choice's home loan settlements grew significantly, helping the Company to achieve its best ever settlement result
- In FY16 the average monthly settlement result surpassed \$1 billion for the first time
- Strong growth in loan writer numbers and continued high productivity places the Group very well for continued lending growth

# Market Share



- Mortgage Choice reversed the decline in market share throughout FY16
- On the back of strong recruitment heading into FY17, Mortgage Choice is well placed to continue to grow the Company's footprint and, in turn, increase market share
- Profitable growth in market share will remain a key focus for the Business in FY17

Mortgage Choice will continue to invest in recruitment



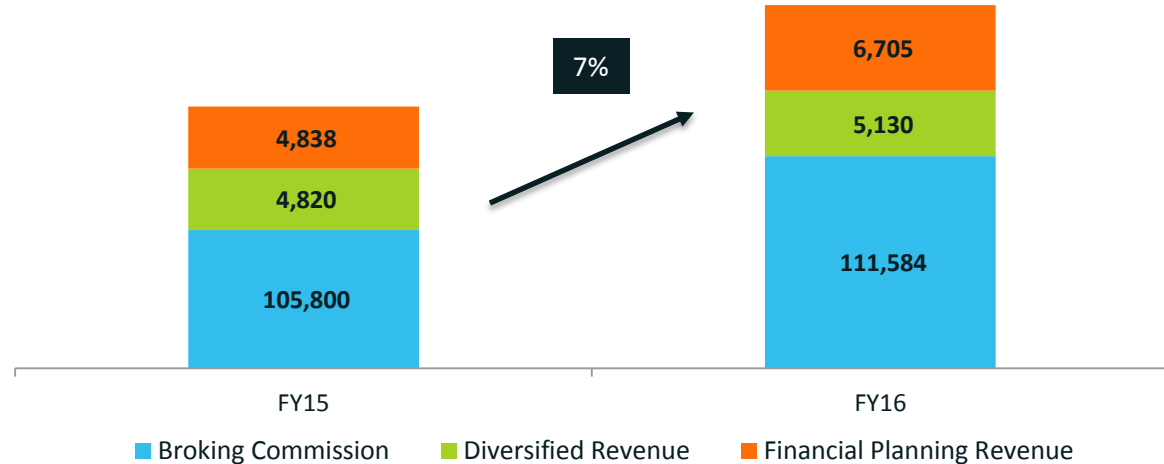
- Two new recruitment initiatives have been introduced to help the Company increase its footprint in FY17
- Recruitment initiatives are designed to reduce the barriers to entry and help Mortgage Choice's loan writers and franchisees get up-to-speed and be efficient faster
- Mortgage Choice enjoyed a strong year for re-sales, proving the proposition remains strong

Increase  
franchisee  
revenue

Growth goal  
for franchisee  
revenue  
surpassed in  
FY16



## Franchisee revenue



*\*Broking commission excludes movement in clawback provision*

- Franchisee revenue growth exceeded the business target the Company set for itself
- The surge in franchisee revenue growth can be attributed to growth in the core broking business, as well as growth in our diversified products and financial planning
- Mortgage Choice will continue to optimise the range of solutions and the distribution channels for each in FY17 in order to further diversify and enhance franchisee revenue growth



## MCFP integration

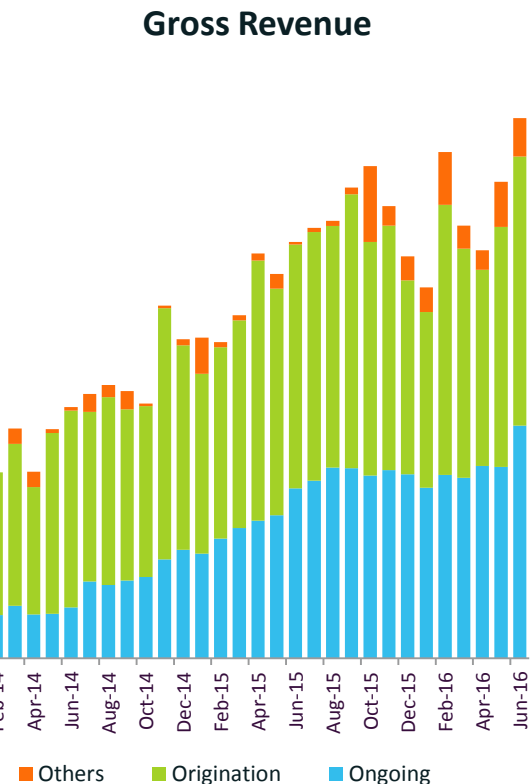
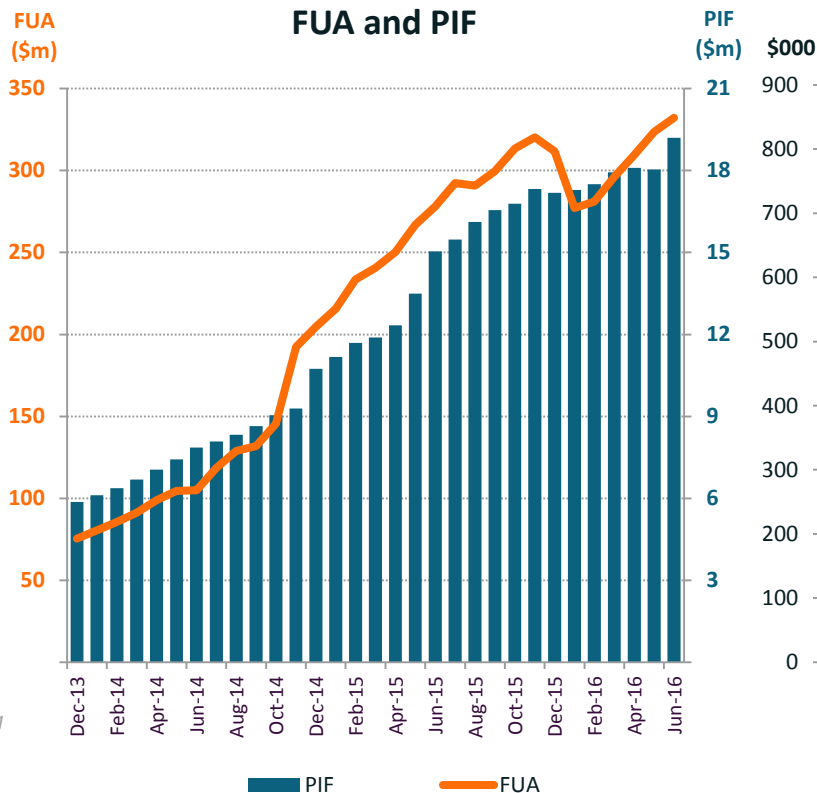
Mortgage Choice  
believes 1 + 1 can  
equal more than 2  
for our customers,  
franchisees and  
shareholders



**1 + 1 > 2**

# Continued growth in Funds Under Advice and Premiums In Force puts Financial Planning in the black

*\*Includes insurance written by broking network*



# Key projects launched in FY16 will drive success in FY17

## FY16 Projects and Initiatives



- Launched Mortgage Choice Asset Finance
- Launched Mortgage Choice Home Loan
- Integrated Financial Planning into core business



- Continued integration of Dynamics with other software platforms
- Integrated an enterprise level marketing system with Dynamics
- Launched Retirement Income Calculator tool



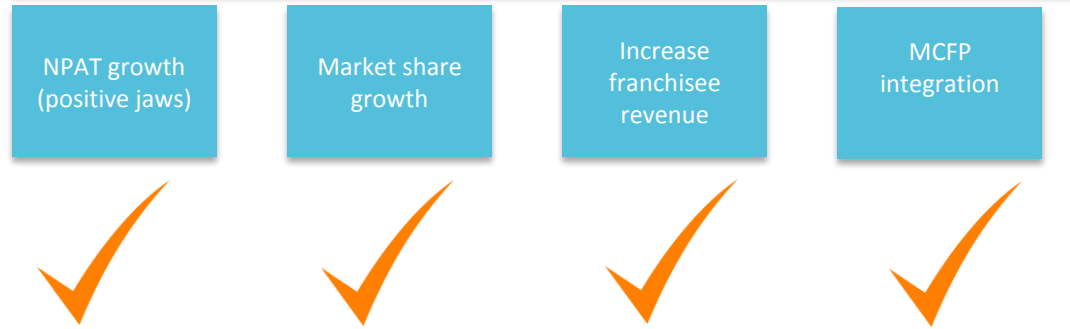
- Launched Accelerate onboarding program
- Launched administration upskilling program
- Established dedicated growth team



- Launched retail incentive program
- Launched collaborative marketing program to drive greater local brand awareness

Achieved  
(and exceeded)  
business  
targets in  
FY16

Success in FY2016



# Strategy on a page

## Vision

Australia's leading provider of financial choices and advice, delivering exceptional customer value and profitability for our franchisees and shareholders.

## Purpose

To create a life of abundance for all Australians.

### Success in FY2017

NPAT growth (positive jaws)	Market share growth	Increase & diversify franchisee revenue	Brand awareness and engagement
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### Success in FY2020

Omni-channel customer experience	Broader range of products	Distribution growth	Customer centric culture
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## Beliefs

- We deliver a highly valuable service to our customers via our service standards – Care, Solve and Amaze;
- We do the right thing;
- We attract the best and brightest in the industry and allow them to grow and prosper;
- We make a positive contribution to our community.

# Early Progress for FY17

## Early Progress for FY17

	Actual YTD 31 August 2016	Actual YTD 30 August 2015	Variance
Head Office Leads	5,517	5,058	+9%
Home Loan Settlements (\$m)	\$2,129	\$1,997	+7%
Financial Planning Gross Profit (\$k)	\$363	\$271	+34%
Credit Representatives*	643	577	+12%
Franchises*	425	422	1%

\* As at 18 October 2016

Questions?



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## Disclaimer

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